MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2000 ANNUAL REPORT

101-04095/

LETTER OF TRANSMITTAL

Regina, Saskatchewan
February 28, 2001

To Her Honour
The Honourable Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2000, in accordance with **The Municipal Financing Corporation Act.** The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,

Eric Cline
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Eric Cline
Chairperson

Honourable Ron Osika

OFFICERS

Mr. Rae Haverstock
General Manager

Ms. Margaret Johannsson
Assistant General Manager

Mr. Jim Fallows
Treasurer

Ms. Marsha Loraas
Secretary

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2000

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2000, the Corporation participated in the financing of nine projects in Saskatchewan by purchasing $2.3 million of municipal debentures. Eight of the debentures purchased were to finance sewer and water projects. One debenture purchased was to finance the construction of a public works department facility. The Corporation's debenture holdings at December 31, 2000 totaled $29.1 million, down $4.4 million from the total at December 31, 1999.

The Corporation recorded a loss of $4.1 million in 2000 compared to a loss of $1.4 million for 1999. The larger loss was caused by the exchange of long term debentures payable with the General Revenue Fund on December 31, 1999 (see note 4 to the financial statements). This transaction increased the Corporation's interest expense in 2000, but will result in lower interest expense in 2001 and subsequent years. The $4.1 million loss was $0.2 million less than the amount budgeted (see note 8 to the financial statements) due to higher than expected returns on the Corporation's cash and short term investments.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred $26 thousand of administrative expenses in 2000. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2000, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31

	2000	1999
	(thousands of dollars)	
Amount of debentures approved by the Corporation	$ 2,857	$ 2,305
Prior year's purchase commitments carried forward	415	-
Total purchase commitments for the year	3,272	2,305
Purchases completed	2,303	1,890
Purchase commitments outstanding at the year end	$ 969	$ 415

DEBENTURES PURCHASED IN 2000
(thousands of dollars)

Town of Herbert	$ 100
Town of Colonsay	315
Village of Roche Percee	120
Village of Meota	195
Town of Martensville	220
Town of La Ronge	662
Village of Pierceland	473
Town of Norquay	100
Northern Village of Jans Bay	118
	$ 2,303

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

E.J.C.Dudley & Co., the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

Rae Haverstock
General Manager

Jim Fallows, CA
Treasurer

February 28, 2001

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2000 and the statements of loss and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

E. J. C. Dudley & Co.

Regina, Canada
January 26, 2001

E. J. C. Dudley & Co.
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	2000	1999
	(thousands of dollars)	
ASSETS		
Current Assets		
Cash and short term investments	$ 46,128	$ 76,201
Interest receivable	2,396	1,812
Municipal debentures receivable within one year	1,979	6,639
	50,503	84,652
Investments in municipal debentures (Note 3)	27,141	26,824
	$ 77,644	$ 111,476
LIABILITIES AND PROVINCE'S EQUITY		
Current Liabilities		
Interest payable and accrued liabilities	$ 2,230	$ 3,023
Debentures payable within one year	28,210	28,916
	30,440	31,939
Long term debentures payable (Note 5)	33,865	62,075
Province of Saskatchewan's Equity		
Reinvested earnings	13,339	17,462
	$ 77,644	$ 111,476

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF LOSS AND REINVESTED EARNINGS

For the Year Ended December 31

	2000	1999
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	$ 2,807	$ 3,667
Investment income - short term investments and cash balances	3,261	3,496
	6,068	7,163
Expenses		
Interest on long term debt	10,165	8,495
Administration	26	50
	10,191	8,545
Net (loss)	(4,123)	(1,382)
Reinvested earnings, beginning of year	17,462	28,117
Premium on exchange of long term debentures payable (Note 4)	-	(9,273)
Reinvested earnings, end of year	$ 13,339	$ 17,462

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2000	1999
	(thousands of dollars)	
Operating Activities		
Net (loss)	$ (4,123)	$ (1,382)
Net change in non-cash working capital balances related to operations:		
Decrease (increase) in interest receivable	(584)	198
(Decrease) increase in interest payable and accrued liabilities	(793)	20
Cash (used in) operating activities	(5,500)	(1,164)
Investing Activities		
Purchase of municipal debentures	(2,303)	(1,890)
Amortization of discounts and premiums	(3)	(3)
Proceeds from maturing municipal debentures	6,649	9,782
Cash provided by investing activities	4,343	7,889
Financing Activities		
Repayment of long term debt	(28,916)	(1,000)
Cash (used in) financing activities	(28,916)	(1,000)
Net (decrease) increase in cash during the year	(30,073)	5,725
Cash and short term investments, beginning of year	76,201	70,476
Cash and short term investments, end of year	$ 46,128	$ 76,201

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Short term Investments

Short term investments are carried at cost.

Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation often purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of $250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

Market Value of Short term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short term maturity of these financial instruments. These short term financial instruments include cash and short term investments, interest receivable, municipal debentures receivable within one year, accounts payable and accrued liabilities, and debentures payable within one year.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by schools, hospitals, cities, towns, villages and rural municipalities throughout the Province of Saskatchewan. The Corporation's policy is to limit its purchase of debentures to no more than 50% of the total authorized borrowings of a capital project, except for water and sewer projects which can be up to 100% of the authorized borrowings. All issues of debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

3. Investments in Municipal Debentures (continued)

The Corporation has an investment in 59 (1999 - 77) debentures issued by 47 (1999 - 55) issuers with a weighted average yield of 8.50% (1999 - 9.15%) and maturity dates ranging from 2001 through 2019.

The carrying amount invested by issuer category is as follows:

	2000	1999
	(thousands of dollars)	
Cities	$ 19,359	$ 21,500
Hospitals	73	148
Schools	2,615	6,403
Towns	5,828	4,950
Villages	1,245	462
	29,120	33,463
Receivable within one year	1,979	6,639
	$ 27,141	$ 26,824

The fair value of these debentures as determined by an independent appraiser is $31,606 (1999 - $34,888). This fair value is determined by discounting the future contractual cash flows under current financial arrangements, which represent investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

4. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows:

	2000	1999
	(thousands of dollars)	
Interest on long term debt	$ 9,788	$ 7,998
Administration expense	20	20

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

4. Related Party Transactions (continued)

On December 31, 1999, the Corporation exchanged long term debentures payable with the General Revenue Fund, a related party by virtue of common control. The Corporation transferred debentures payable having a face value of $79,667,000 with accrued interest payable of $1,527,000 and a fair value of $100,787,000 in exchange for debentures payable having a face value of $87,491,000 with accrued interest payable of $2,973,000 and a fair value of $100,784,000. The difference in fair value of $3,000 was paid in cash by the Corporation early in 2000.

The net difference between face value, including accrued interest payable, and fair value of the debentures exchanged has been charged to reinvested earnings. Fair value was determined by discounting the future contractual cash flows at borrowing rates presently available to the Corporation, less costs of settlement.

5. Long term Debentures Payable

Maturity Date	Rate (%)	2000	1999
		(thousands of dollars)	
Saskatchewan Telecommunication Superannuation Fund			
June 17, 2000	12.000	-	500
Province of Saskatchewan - Municipal Employees Superannuation Fund			
June 17, 2000	12.000	-	500
Roytor & Co.			
December 15, 2002	12.875	2,500	2,500
Province of Saskatchewan			
April 3, 2000*	13.390	-	10,336
May 2, 2000*	13.460	-	11,814
October 1, 2000*	12.500	-	5,766
April 1, 2001*	13.660	6,175	6,175
May 1, 2001*	13.690	13,971	13,971
August 4, 2001*	15.310	8,064	8,064
February 1, 2002*	15.500	5,219	5,219
March 1, 2002*	16.100	1,571	1,571
April 1, 2002*	15.120	5,000	5,000
October 1, 2002*	14.160	4,500	4,500
March 1, 2003*	12.160	5,684	5,684
November 9, 2004*	12.960	9,391	9,391
		62,075	90,991
Repayment required within one year		28,210	28,916
Long term debentures payable		$ 33,865	$ 62,075

* Certain issues owing to the Province of Saskatchewan in the amount of $59.575 million (1999 - $87.491 million) are subject to redemption by the Province on six months notice.

5. Long term Debentures Payable (continued)

Principal payments due on long term debt for the next five years are as follows (in thousands of dollars):

2001	- $	28,210
2002	- $	18,790
2003	- $	5,684
2004	- $	9,391
2005	- $	0

The fair value of long term debentures payable, before the repayment required within one year, is $68.4 million (1999 - $101.8 million) and is determined by discounting the future contractual cash flows under current financial arrangements, which represent borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

6. Interest Rate Risk

The Corporation is exposed to interest rate risk due to the nature of its operations. Interest rate risk is created when the maturity dates of an entity's assets and liabilities are not precisely matched. The following table shows the matching of the Corporation's assets and liabilities:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2000	Difference 1999
		(thousands of dollars)		
2000	$ -	$ -	$ -	$ 52,713
2001	50,503	30,440	20,063	(26,407)
2002	4,471	18,790	(14,319)	(14,510)
2003	2,971	5,684	(2,713)	(2,917)
2004	1,252	9,391	(8,139)	(8,358)
2005	1,823	-	1,823	-
Thereafter	16,624	-	16,624	16,941
	$ 77,644	$ 64,305	$ 13,339	$ 17,462

The effective interest rates on the Corporation's assets and liabilities are as follows:

Cash and short term investments	6.07%
Investments in municipal debentures	8.50%
Debentures payable	13.98%

7. Commitments

Prior to December 31, 2000, the Corporation had approved the purchase of debentures from certain local governments of which $968.5 thousand were not purchased before year end.

8. Operations Budget

	Budget 2000
	($ 000's)
Revenue	
Investment income - municipal debentures	$ 2,773
Investment income – short term investments and cash balances	3,136
	5,909
Expenses	
Interest on long term debt	10,162
Administration	24
	10,186
Net loss	$ (4,277)